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CVD EQUIPMENT CORP  
Form 10KSB  
March 31, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2007

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION  
(Name of Small Business Issuer in Its Charter)

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

1860 Smithtown Avenue  
Ronkonkoma, New York 11779  
(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081  
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section  
12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par value \$0.01	NASDAQ Capital Markets

Securities registered under Section 12(g) of the Act:  
None

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State issuer's revenues for its most recent fiscal year. \$13,577,772.

State the aggregate market value of the voting and non-voting common equity held

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by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded, in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive determination for other purposes: \$ 7,915,873 at March 25, 2008.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,733,500 shares of Common Stock, \$0.01 par value at March 25 2008.

### DOCUMENTS INCORPORATED BY REFERENCE

None. Transitional Small Business Disclosure Format (Check one): Yes  No

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### PART I

#### Item 1. Description of 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 more than 25 years of experience, we provide leading-edge design and manufacturing solutions to our customers. We use 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.

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 started introducing a line of proprietary standardized products and systems targeted at this market. Historically, we manufactured these products on a custom one-at-a-time basis to meet an 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 is 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.

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We also grow the sales of our proprietary standard and custom systems by building on the success of our installed customer base, which includes several Fortune 500 companies. Historically, revenues have grown primarily through sales to existing customers with additional capacity needs or new requirements, as well as to new 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, from increased participation in trade shows, and internet advertising.

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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.

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.

### Operating Divisions

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.

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 telecommunication 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 begun 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.

Principal Products

Chemical Vapor Deposition - A process which passes a gaseous compound over a target material surface that is heated to such a degree that the compound decomposes and deposits a desired layer onto substrate material. The process is accomplished by combining appropriate gases in a reaction chamber, of the kind produced by the Company, at elevated temperatures (typically 300-1,800 degrees Celsius). Our Chemical Vapor Deposition systems are complete and include all necessary instrumentation, subsystems and components. We provide such standard systems and also specifically engineered products for particular customer applications. Some of the standard systems we offer are for Silicon, Silicon-Germanium, Silicon Dioxide, Silicon Nitride, Polysilicon, Liquid Phase Epitaxial, Metalorganic Chemical Vapor Deposition, Carbon Nanotubes and Nanowires.

Our Chemical Vapor Deposition systems are available in a variety of models that can be used in production and laboratory research. All models can be offered with total system automation, a microprocessor control system by which the user can measure, predict and regulate gas flow, temperature, pressure and chemical reaction rates, thus controlling the process in order to enhance the quality of the materials produced. Our standard microprocessor control system is extremely versatile and capable of supporting the complete product line and most custom system requirements. These Chemical Vapor Deposition systems are priced up to \$1,500,000.

Rapid Thermal Processing ("RTP") - Used to heat semiconductor materials to elevated temperatures of 1,000 degrees Celsius at rapid rates of up to 200 degrees Celsius per second. Our RTP systems are offered for implant activation, oxidation, silicide formation and many other processes. We offer systems that can operate both at atmospheric or reduced pressures. Our RTP systems are priced up to \$600,000.

Annealing and Diffusion Furnaces - Used for diffusion, oxidation, implant anneal, solder reflow and other processes. The systems are normally operated at atmospheric pressure with gaseous atmospheres related to the process. An optional feature of the system allows for the heating element to be moved away from the process chamber allowing the wafers to rapidly cool or be heated in a controlled environment. Our cascade temperature control system enables more precise control of the wafers. The systems are equipped with an automatic process controller, permitting automatic process sequencing and monitoring with safety alarm provisions. Our annealing and diffusion furnace systems are priced up to \$900,000.

Ultra-high Purity Gas and Liquid Control Systems - Our standard and custom designed gas and liquid control systems, which encompass, gas cylinder storage cabinets, custom gas and chemical delivery systems, gas and liquid valve manifold boxes and gas isolation boxes, provide safe storage and handling of pressurized gases and chemicals. Our system design allows for automatic or manual control from both a local and remote location. A customer order often includes multiple systems and can total up to \$1,000,000.

Quartzware - We provide standard and custom fabricated quartzware used in our equipment and other customer tools. We also provide repair and replacement of existing quartzware.

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Reflow Furnaces and Rework Stations - We provide standard and custom systems for the printed circuit board and surface mount technology industries. Our equipment is designed to melt solder in a controlled process to form superior connections between components, creating complete electronic circuits for computers and telecommunication systems, as well as for the automotive and defense industries.

### Markets and Marketing

Due to the highly technical nature of our products, we believe it is essential to contact customers directly through our sales personnel and through a network of domestic and international independent sale representatives and distributors specializing in the type of equipment we sell. Our primary marketing activities include direct sales contacts, participation in trade shows and our internet websites. We are focusing our efforts on being in the top listings on many search engines in order to increase the number of "hits" to our websites.

### Customers

We are continuing to work on expanding our product offerings. Many of these products are used in research and in production applications. We sell our products primarily to semiconductor manufacturers, institutions involved in semiconductor and electronic component research (such as universities, government and industrial laboratories) and to electronic assembly manufacturers. We have both an international and domestic installed customer base of approximately 200 customers to whom we have sold systems within the last three years. For the twelve months ended December 31, 2007 approximately 21% of our revenues were generated from foreign exports compared to 31% for the twelve months ended December 31, 2006. Sales to a single customer in any one year can exceed 10.0% of our total sales; however, we are not dependent on any single customer. In fiscal years 2007 and 2006, one customer represented 7.1% and 9.0% of our annual sales each year. No other customer represented more than 5.6% or 6.5% of our total sales in fiscal years 2007 or 2006, respectively.

### Warranties

We warrant our equipment for a period of twelve to twenty four months after shipment, depending on the product, and pass along any warranties from original manufacturers of components used in our products. We provide for our own equipment servicing with in-house field service personnel. Warranty costs, including those incurred in fiscal year 2007, have been historically insignificant and expensed as incurred.

### Competition

We are subject to intense competition. We are aware of other competitors that offer a substantial number of products comparable to ours. Many of our competitors (including customers who may elect to manufacture systems for internal use) have financial, marketing and other resources greater than ours. To date, we believe that each one of our three operating divisions has been able to compete in markets that include these competitors, primarily on the basis of technical performance, quality, delivery and price.

CVD/First Nano competes primarily with in-house design and engineering personnel at research and university laboratories with the capacity to design and build their own equipment internally. Due to budgetary and funding constraints, many of these customers are extremely price sensitive. CVD/First Nano also competes

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with companies that have substantially greater financial, marketing and other resources to develop new products and support customers worldwide, as well as smaller competitors. We believe that our systems are among the most advanced available.

SDC competes with companies that are larger than our company and have substantially greater financial, marketing and other resources than we do. We believe that SDC's gas management and 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 a number of the world's leading semiconductor manufacturers, research laboratories and universities.

Conceptronic/Research's proprietary reflow ovens and rework stations are used by the printed circuit board assembly and semiconductor packaging industries. Conceptronic/Research also offers customized products for complex applications within the printed circuit board and other industries that use conveyor-type ovens in heating and drying applications. Our in-house design and engineering personnel develop leading edge technology for sale at competitive prices. Conceptronic/Research competes with companies that are larger than our company and have substantially greater financial, marketing and other resources than we do. We believe that our reflow ovens and rework stations are among the most advanced available having leveraged our experience in designing and building customized products for our customers.

### Sources of Supply

We do not manufacture many components used in producing our products. Most of these components are purchased from unrelated suppliers. We do not have any supply contracts covering these components, although we are not dependent on a principal or major supplier and alternate suppliers are available. Subject to lead times, the components and raw materials we use in manufacturing our products are readily obtainable.

We have a fully equipped machine shop that we use to fabricate in-house most of the metal components, including the most complex designed parts of our equipment. Our investment in (CNC) machines for our machine shop has increased our efficiencies while significantly reducing costs in production. Similarly, our quartz fabrication capability is sufficient to meet our quartzware needs.

Materials procured from the outside and/or manufactured internally undergo a rigorous quality control process to ensure that the parts meet or exceed our requirements and those of our customers. Upon final assembly, all equipment undergoes a final series of complete testing to ensure maximum product performance.

### Backlog

As of December 31, 2007 our order backlog was approximately \$5,087,000 compared to approximately \$3,565,000 at December 31 2006, an increase of 42.7%. The increase can primarily be attributed to our CVD Division. This division, inclusive of its expanded product line of First Nano equipment, continues to experience a strong demand for new equipment. The timing for completion of the backlog varies depending on the product mix; however, there is generally a one to six month lag in the completion and shipping of backlogged product. Included in the backlog are all accepted purchase orders with the exception of those that

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are included in our percentage-of-completion. Order backlog is usually a reasonable management tool to indicate expected revenues and projected profits, however it does not provide an assurance of future achievement or profits as order cancellations or delays are possible.

### Intellectual Property

Our success is dependent in part on our technology and other proprietary rights. We have historically protected our proprietary information and intellectual property such as design specifications, blueprints, technical processes and employee know-how through the use of non-disclosure agreements. We also maintain and/or assert rights in certain trademarks relating to certain of our products and product lines, and claim copyright protection from certain proprietary software and documentation.

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 through other security measures.

### Research and Development

The university research community is at the forefront of nanotechnology research, and we are focused on providing state-of-the-art systems to this market that will help bridge the gap between pioneering research and marketable products. Our research laboratory, together with a number of leading universities with whom we partner, conducts cutting-edge research on the growth of carbon nanotubes and nanowires. The results of this research could have far reaching implications concerning the use and manufacture of carbon nanotubes and nanowires for many markets. Our intention is that together we will leverage our collective expertise in this field, which will allow us to capitalize on commercial opportunities in the future. This relationship has thus far produced leading edge results, including what we believe are the largest carbon nanotube clusters yet developed. The amount spent on research and development was \$715,000 (5.3% of revenue) and \$513,000 (3.8% of revenue) for the years ended December 31, 2007 and December 31, 2006, respectively.

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### Government Regulation

We are subject to a variety of federal, state and local government regulations, such as environmental, labor and export control. We believe that we have obtained all necessary permits to operate our business and that we are in material compliance with all laws and regulations applicable to us.

We are not aware of any government regulations or requirements necessary for the sale of our products, other than certain approvals or permits which may be required for us to export certain of our products to certain foreign countries

### Insurance

Some of our products are used in connection with explosive, flammable, corrosive and toxic gases. There are potential exposures to personal injury as well as property damage, particularly if operated without regard to the design limits of the systems and components. We believe that our insurance coverage is adequate.

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We have the following types of insurance coverage:

- o Product liability
- o Property and contents
- o General liability
- o Directors and officers
- o Transportation
- o Business auto
- o General Umbrella
- o Workers compensation
- o Employee benefits liability

### Employees

At December 31, 2007, we had 115 employees, 113 of which were full time personnel and 2 which were part time. We had 64 people in manufacturing, 27 in engineering (including research and development and efforts related to product improvement) 6 in field service, 4 in sales and marketing and 14 in general management and administration.

### Item 2. Description of Property.

We maintain our headquarters at 1860 Smithtown Avenue, Ronkonkoma, New York, where we own a 50,000 square foot manufacturing facility which we purchased in March, 2002. The purchase price for the Property was \$2,161,875. In addition we incurred \$1,283,077 of renovations. We financed \$2,700,000 of the total. The financing consisted of a loan secured by a mortgage held by GE Capital Public Finance Inc. subject to an installment sale agreement with the Town of Islip Industrial Development Agency. Payments are based upon a 15 year amortization schedule. Interest is fixed at a rate of 5.67%. Our CVD/First Nano and Conceptronic/Research divisions operate out of this facility.

Our SDC division operates out of a 22,000 square foot manufacturing facility situated on five acres of land which we purchased in December 1998 and is located at 1117 Kings Highway, Saugerties, New York. The property was purchased from Kidco Realty Corp. The purchase price for the Property was \$1,400,000. We financed \$900,000 of the purchase price. The financing consisted of a loan secured by a mortgage held by Kidco Realty Corp. Payments are based upon a 30-year amortization schedule, with a 10-year balloon. Interest is fixed at a rate of 7% for 10 years.

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On February 8, 2008 we closed on an acquisition of a 13,300 square foot facility located at 979 Marconi Avenue, Ronkonkoma, NY 11779 through the Town of Islip Industrial Development Agency. The Property was purchased from HPG Realty Co., LLC. The total purchase price for the Property was \$2,015,000. We financed approximately \$1,500,000 of the purchase price. The financing consists of two loans secured by mortgages, both of which are held by Capital One, N.A. Payments upon each of the mortgages are based upon a 20-year amortization schedule, with a 10-year balloon. Interest on the \$1 million mortgage is fixed at a rate of 5.67% for 10 years. Interest on the \$500,000 mortgage is fixed at a rate of 3.67% for the first four years and will be adjusted for the 6 year period beginning March 1, 2012 to 200 basis points above the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of 6 years, until maturity on March 1, 2018. The facility is intended to be used for the expansion of the Company's First Nano laboratory starting in the second quarter of 2008.

### Item 3. Legal Proceedings.



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In September 1999, we were named in a lawsuit filed by PrecisionFlow Technologies, Inc., in the United States District for the Northern District of New York relating to comments allegedly made by CVD's President, Leonard A. Rosenbaum, concerning the intellectual property obtained in the purchase of assets of Stainless Design Corporation. We promptly filed a counterclaim for unauthorized use of our intellectual property. The plaintiff was seeking monetary damages and injunctive relief. In our counter-claim, we sought monetary damages and injunctive relief.

In May 2002, we commenced a new action against Precisionflow Technologies, Inc., in the United States District for the Northern District of New York seeking injunctive relief and monetary damages based upon copyright violations.

On September 18, 2007 a settlement was reached between the Company and PrecisionFlow Technologies, Inc. of the pending litigation. Under the terms of the settlement, all claims and counterclaims asserted by the parties in previously filed lawsuits were discontinued in consideration of which the Company will receive payments totaling \$541,600 to be paid over a specific timetable as defined.

From time to time, we may become a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

#### Item 4. Submission of Matters to a Vote of Security Holders.

At our annual meeting of stockholders, which was held on December 12, 2007, our stockholders:

- (1) Elected five nominees for directors to serve for a term ending in 2008;
- (2) Approved the selection of Moore Stephens, P.C. as the Company's independent registered public accounting firm for the year ending December 31, 2007.
- (3) Approved the 2007 Share Incentive Plan

The following tables show the common stock votes cast with respect to the proposals identified above:

#### Election of Directors:

	For	Withheld Authority
Leonard A. Rosenbaum	4,237,633	16,714
Martin J Teitelbaum	3,909,807	344,540
Alan H. Temple Jr.	4,237,633	16,714
Conrad J. Gunther	4,237,323	17,024
Bruce T. Swan	4,237,623	16,724

#### Proposal 2: Ratification of Moore Stephens, P.C.

For	Against	Abstentions
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4,084,964            12,200            683

Proposal 3: Approval of 2007 Share Incentive Plan

For ---	Against -----	Broker Non-Vote -----	Abstentions -----
2,255,994	390,104	1,602,403	5,846

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The principal market for our common stock which is traded under the symbol "CVV" was the American Stock Exchange until September 20, 2007. On that date, we transferred our listing to The NASDAQ Capital Market. The following table sets forth, for the periods indicated, the high and low closing prices of our common stock on the American Stock Exchange and The NASDAQ Capital Market.

	High ----	Low ---
Year Ended December 31, 2007:		
1st Quarter.....	\$6.21	\$4.90
2nd Quarter.....	8.95	5.28
3rd Quarter.....	6.20	4.55
4th Quarter.....	4.91	3.65
	High ----	Low ---
Year Ended December 31, 2006:		
1st Quarter.....	\$4.21	\$2.80
2nd Quarter.....	4.22	2.80
3rd Quarter.....	3.69	2.25
4th Quarter.....	7.13	3.09

As of March 18, 2008, there were approximately 76 holders of record and approximately 782 beneficial owners of our common stock, and the closing sales price of our common stock as reported on the NASDAQ Capital Market was \$3.20.

Dividend Policy

We have never paid dividends on our common stock and we do not anticipate paying dividends on common stock at the present time. We currently intend to retain earnings, if any, 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 the Board of Directors and its policy with respect to dividends in the future will depend on numerous factors, including earnings, financial requirements and general business conditions.

Under applicable New York law, we would not be permitted to declare and pay dividends if we were insolvent, or would become insolvent by payment of dividends, or if our net assets remaining after payment of dividends would be less than our stated capital.

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### Equity Compensation Plan Information

The following table provides information about shares of our common stock that may be issued upon the exercise of options under all of our existing compensation plans as of December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number remaining at the end of the period
Equity compensation plans			
approved by security holders(1)	465,000	\$ 3.09	
Total	465,000	\$3.09	
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(1) Reflects aggregate options and restricted stock awards outstanding under our Non-Qualified Stock Option Plans and 2007 Share Incentive Plan.

### Recent Sales Of Unregistered Securities

None.

### Issuer Purchases Of Equity Securities

None.

### Item 6. Management's Discussion and Analysis or Plan of Operation.

Except for historical information contained herein, this "Management's Discussion and Analysis or Plan of Operation" contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, as amended. These statements involve known and unknown risks and uncertainties that may cause our actual results or outcomes 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 our existing and potential future product lines of business; our ability to obtain financing on acceptable terms if and when needed; uncertainty as to our 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. We assume 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.

We design and manufacture standard and custom 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 semi-conductors, 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 more than 25 years of industry 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.

#### Results of Operations

##### Revenue

Revenue for the year ended December 31, 2007 was approximately \$13,578,000 compared to approximately \$13,356,000 for the year ended December 31, 2006, representing an increase of 1.7%. Annual revenue from the CVD division increased by approximately \$1,218,000 to \$8,081,000 which represents 59.5% of our total revenue during the year ended December 31, 2007, compared to \$6,863,000, or 51.4% of our total revenue for the prior fiscal year. The increase in demand for our custom Chemical Vapor Deposition equipment and our First Nano, EasyTube product line has fueled this increase. Annual revenue from the SDC division decreased by approximately \$540,000 to \$2,589,000 which represents 19.1% of our total revenue during the year ended December 31, 2007, compared to \$3,129,000, or 23.4% of our total revenue for the prior fiscal year. This decrease is primarily a result of certain SDC orders being delayed until the first quarter of 2008. Annual revenue from the Conceptronic division decreased by approximately \$456,000 to \$2,908,000 which represents 21.4% of our total revenue during the year ended December 31, 2007, compared to \$3,364,000 or 25.2% for the prior fiscal year. The Conceptronic division continues to make improvements and reduce costs in their product offering at the same time it is focusing efforts towards a more solutions oriented approach and customized products.

##### Gross Profit

As a result of the increased revenues for the current year, cost of revenues increased to approximately \$8,907,000 from approximately \$8,672,000 for the last fiscal year, an increase of approximately \$235,000. The gross profit for the current fiscal year decreased slightly to approximately \$4,671,000 from last year's \$4,684,000, a decrease of approximately \$13,000 with a decrease in gross profit margin to 34.4% from the 35.1% experienced during the prior year. These

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overall decreases are due to the lower gross profit margins experienced by the SDC and Conceptronic divisions as a result of increased material costs and reduced revenues. The gross profit margin of the CVD division increased to 43.5% for the year ended December 31, 2007 compared to 42.9% for the year ended December 31, 2006 after the inclusion of \$715,000 of research and development costs in the current year, a 39.4% increase, compared to \$513,000 in the prior year. The SDC division's gross profit margin decreased to 18.8% for the year ended December 31, 2007 from 25.6% for the year ended December 31, 2006 as result of higher material intensive sales during 2007 as well as the effect of fixed costs on reduced revenues. The Conceptronic division's gross profit margin decreased to 19.8% for the year ended December 31, 2007 from 23.3% for the year ended December 31, 2006 as result of the division's fixed costs having a greater impact on the reduced revenues.

### Selling, General and Administrative Expenses

Selling and shipping expenses were approximately \$755,000 in the year ended December 31, 2007 compared to \$756,000 in the year ended December 31, 2006.

General and administrative expenses were approximately \$3,426,000 during the year ended December 31, 2007. This was an increase of approximately \$502,000 or 17.2% compared to approximately \$2,925,000 during the year ended December 31, 2006. This increase can be attributed to a combination of increased payroll and benefit costs, stock-based compensation, Sarbanes Oxley costs and other professional fees in addition to increased general insurance.

### Operating Income

As a result of the foregoing factors, operating income for the year ended December 31, 2007 was approximately \$489,000 compared to approximately \$1,003,000 for the year ended December 31, 2006.

### Interest Expense. Net

In October, 2007, we concluded the sale of 1,380,000 shares of common stock under a registration statement filed with the Securities and Exchange Commission. As a result, we earned interest of approximately \$51,000 from the temporary investment of certain net capital raising proceeds (approximately 5.0 million) for the year ending December 31, 2007 compared to minimal interest earned for 2006.

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We incurred approximately \$217,000 of interest expense in the year ended December 31, 2007, which was approximately \$7,000 or 3.1% less than the \$224,000 incurred in the year ended December 31, 2006. The primary source of this interest expense, approximately \$170,000 in the current year and approximately \$179,000 in the year ended December 31, 2006, was the interest expense on the mortgages for the two buildings we own. As a result of the proceeds received from the sale of the Company's common stock discussed earlier, the average outstanding debt was lower in the current year resulting in less interest expense than in the year ended December 31, 2006.

### Other Income

Other income for the current year increased to approximately \$563,000, an increase of \$447,000 or 385% compared to \$116,000 of other income generated during the year end December 31, 2006. This increase was the result of a settlement of litigation between the Company and PrecisionFlow Technologies, Inc. Under the terms of the settlement, all claims and counterclaims asserted by

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the parties were discontinued in consideration of which we will receive payments totaling \$541,600 to be paid over a specific timetable.

### Income Tax Provision

For the twelve months ended December 31, 2007, we recorded income tax expense of approximately \$110,000 which related to various federal, state and local taxes. The current income tax provision was reduced by approximately \$77,000 as a result of the use of available net operating losses. In 2006, we had a change in the tax accounting method of recognizing contract revenue from the completed contract method to the percentage of completion method. Contracts in progress as of December 31, 2006 are being recognized ratably over a four year period, thus increasing the current income tax provision and conversely decreasing the deferred tax provision as we recognize 25% of the tax provision annually.

### Net Income

As a result of the foregoing factors, for the year ended December 31, 2007, our pre-tax income amounted to approximately \$887,000, as compared to \$897,000 for the same period in 2006. Net income for the year ended December 31, 2007 was approximately \$777,000 as compared to \$604,000 in 2006 or \$.21 per basic and \$.20 per diluted share as compared to \$.19 per basic and diluted share for the years ended December 31, 2007 and 2006 respectively.

### Liquidity and Capital Resources

In October 2007, we completed the sale of 1,380,000 shares of common stock in a public offering at \$4.75 per share. The net proceeds of the sale after offering expenses and underwriting fees was approximately \$5.7 million. We intend to use the net proceeds from the offering for working capital and other general corporate purposes, including possible product or business acquisitions in connection with the planned expansion of our business.

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As of December 31, 2007, we had aggregate working capital of approximately \$10,314,000 compared to aggregate working capital of \$4,151,000 at December 31, 2006 and had available cash and cash equivalents of approximately \$5,110,000 compared to approximately \$257,000 in cash and cash equivalents at December 31, 2006. The increase in working capital was primarily attributable to the approximately \$5.7 net cash proceeds received from our equity raise and the settlement of the PrecisionFlow litigation.

Accounts receivable, net of allowance for doubtful accounts decreased by approximately \$608,000 or 25.6% at December 31, 2007 to \$1,769,000 compared to \$2,377,000 at December 31, 2006. This decrease is principally due to the timing of shipments and customer payments.

Inventory as of December 31, 2007 was approximately \$3,016,000 representing an increase of approximately \$311,000 or 11.5% over the inventory balance of \$2,705,000 as of December 31, 2006. The increase in inventory was comprised of an increase in raw materials of approximately \$218,000, an increase in work in process of approximately \$218,000 which was partially offset by a decrease in finished goods of approximately \$125,000. The build-up in work in process is primarily due to an increase in orders that we are experiencing in customized CVD products and our First Nano, EasyTube standardized product line. Accounts payable and accrued expenses at December 31, 2007 of approximately \$1,880,000 was approximately \$518,000 higher than it was at December 31, 2006.

As of December 31, 2007, our backlog was approximately \$5,087,000, an increase

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of \$1,522,000 or 42.7% compared to \$3,565,000 at December 31, 2006. Timing for completion of the backlog varies depending on the product mix, however, there is generally a one to six month lag in the completion and shipping of backlog. Backlog from quarter to quarter can vary based on the timing of order placements and shipments. Demand for CVD and First Nano EasyTube systems continues to remain strong.

On June 1, 2007, we entered into a three year Revolving Credit Agreement with a bank permitting us to borrow on a revolving basis amounts up to \$2,000,000 until June 1, 2010, at which time it will be subject to renewal. The loan will bear interest on any unpaid principal balance at a rate to be elected by us, which shall be equal to either (1) the LIBOR Rate plus 2.50% or (2) the bank's prime rate plus 1/4 of 1%. This agreement contains certain financial and other covenants, with which we were in compliance at December 31, 2007.

We had an equipment line of credit of \$250,000 with that same bank. This line of credit was discontinued as of June 1, 2007 with the inception of the new three year Revolving Credit Agreement previously discussed.

In March, 2002, we received from General Electric Capital Corporation a \$2,700,000 mortgage loan, secured by the real property and building and improvements to finance and improve our facility in Ronkonkoma, New York. The mortgage loan, which has an outstanding balance as of December 31, 2007 of \$1,921,439, is payable in equal monthly installments of \$22,285 including interest at 5.67% per annum; pursuant to an industrial development bond purchase agreement with the town of Islip Industrial Development Agency. The final payment is due March 2017.

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In April, 1999 we received from Kidco Realty Corporation a \$900,000 purchase money mortgage loan, secured by the real property, building and improvements in Saugerties, New York. The mortgage loan has an outstanding balance at December 31, 2007 of \$794,897 and is payable in equal monthly installments of \$5,988 including interest at 7% per annum. The entire principal balance is due May 2009.

In the fourth quarter of 2006, an internal decision was made to significantly broaden the First Nano product line and pursue a significantly larger share of the R & D market with additional equipment platforms under the First Nano brand name. In 2007, we began marketing, manufacturing and selling these products. We feel comfortable we will continue to be successful with these multiple new products as well as the additional new products to be offered as their design is based on building blocks we have used in 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 have begun to increase our manufacturing capacity, hired additional personnel and expanded our advertising, trade shows and marketing capabilities. Additionally, on February 8, 2008 we purchased a 13,300 square foot stand-alone building to house our First Nano laboratory. We are now in the process of hiring additional personnel and purchasing additional laboratory test equipment so that we can develop new First Nano and CVD products so we can continue to stay in the forefront of Carbon Nanotube, Nanowire, Nano Material and other technology related applications.

We believe that our cash and cash equivalent positions, cash flow from operations and ability to expand our credit facilities as of December 31, 2007 and for the year then ended will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months.

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Should we determine to grow our business more aggressively, which may include making acquisitions; we may need to raise additional funding. For this reason, as well as other reasons that arise from time to time, we may consider raising capital through equity or debt financings. Any decision to raise additional capital, as well as the determination of the appropriate vehicle for doing so, will depend on market conditions, order levels, opportunities presented to us and other factors.

### Critical Accounting Policies

#### Revenue Recognition

We continue to 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 total estimated costs over the percentage of total costs incurred on 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.

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#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

#### Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123-R "Share-Based Payment" using the modified prospective method. SFAS No. 123-R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. Under the modified prospective method of adopting SFAS No. 123-R, the Company recognized compensation cost for all share-based payments granted after January 1, 2006, plus any awards granted to employees prior to January 1, 2006 that remain unvested at that time. Under this method of adoption, no restatement of prior periods is made.

#### Long-Lived Assets

Long-lived assets consist primarily of property, plant and equipment. Long-lived assets are reviewed annually for impairment or whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." If the asset is determined to be impaired, the impairment loss is measured on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of their



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carrying value or net realizable value. The Company had no recorded impairment charges in the statement of operations during each of the years ended December 31, 2007 and 2006.

### Off-Balance Sheet Arrangements

None

### Item 7. Financial Statements.

The consolidated financial statements and supplementary data required by this item are included in this annual report beginning on page F-1.

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### Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

### Item 8A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Annual Report on Form 10-KSB, and in other reports required to be filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission for such filings. As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2007. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the management of the Company, have determined that as of December 31, 2007, the disclosure controls and procedures were and are effective as designed to ensure that information relating to the Company and its consolidated subsidiary would be accumulated and communicated to them, as appropriate, to allow timely disclosures regarding required disclosures.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Item 8B. Other Information.

None

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## PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.

### Board of Directors and Executive Officers

Our Certificate of Incorporation and Bylaws provide for our Company to be managed by or under the direction of the Board of Directors. Under our Certificate of Incorporation and Bylaws, the number of directors is fixed from time to time by the Board of Directors. The Board of Directors currently consists of five members. Directors are elected for a period of one year and thereafter serve, subject to the Bylaws, until the next annual meeting at which their successors are duly elected by the stockholders.

The following table sets for the names, ages and positions with the Company of each of our directors and executive officers.

Name	Age	Position(s) with the Company
Leonard A. Rosenbaum	62	Director, Chief Executive Officer, President
Alan H. Temple Jr.	74	Director, Chairman-Compensation Committee
Martin J. Teitelbaum	58	Director, Assistant Secretary
Conrad Gunther	61	Director, Chairman-Audit Committee
Bruce T. Swan	75	Director, Chairman-Nominating, Governance and Compliance Committee
Glen R. Charles	54	Chief Financial Officer, Secretary

#### Leonard A. Rosenbaum

Leonard A. Rosenbaum founded the Company in 1982 and has been our President, Chief Executive Officer and has served as Chairman of the Board of Directors since that time. From 1971 until 1982, Mr. Rosenbaum was President, director and a principal stockholder of Nav-Tec Industries, a manufacturer of semiconductor processing equipment similar to the type of some of the equipment we currently manufacture. From 1966 to 1971, Mr. Rosenbaum was employed by a division of General Instrument, a manufacturer of semiconductor materials and equipment.

#### Alan H. Temple Jr.

Alan H. Temple Jr. has served as a member of our Board of Directors since 1987. Mr. Temple earned an MBA at Harvard University and has been President of Harrison Homes Inc., a building and consulting firm located in Pittsford, New York since 1977.

#### Martin J. Teitelbaum

Martin J. Teitelbaum has served as a member of our Board of Directors since 1985. Mr. Teitelbaum is an attorney, who since 1988, has conducted his own private practice. From 1977 to 1987, Mr. Teitelbaum was a partner in the law firm of Guberman and Teitelbaum. Mr. Teitelbaum currently acts as our Assistant Secretary. Mr. Teitelbaum earned a B.A. in Political Science from the State University of New York at Buffalo and a Juris Doctor from Brooklyn Law School.

#### Conrad Gunther

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Conrad Gunther has served as a member of our Board of Directors since 2000. Mr. Gunther has extensive experience in mergers and acquisitions and in raising capital through both public and private means. He also has extensive experience in executive management in the banking industry. He also serves on the Board of Directors of Reliance Bancorp, Childrobics and GVC Venture Corp, all public companies. For the past five years, Mr. Gunther has been the President of E-Billsolutions, a company that provides credit card processing to Internet, mail order and telephone order merchants.

Bruce T. Swan  
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Bruce T. Swan has served as a member of our Board of Directors since September 2003. Mr. Swan has extensive banking, export and international credit experience and has been retired for more than five years. He previously has held the positions of Deputy Manager at Brown Brothers Harriman and Co., Assistant Treasurer at Standard Brands Incorporated, Assistant Treasurer at Monsanto Corporation, Vice President and Treasurer at AM International Inc. and President and Founder of Export Acceptance Company. Mr. Swan, earned his MBA from Harvard University and is a former adjunct faculty member of New York University's Stern School of Business Administration.

Glen R. Charles  
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Glen R. Charles has been the Chief Financial Officer and Secretary of the Company since January, 2004. From 2002 until he joined the Company, he was the Director of Financial Reporting for Jennifer Convertibles, Inc., the owner and licensor of the largest group of sofabed specialty retail stores in the United States. From 1994 to 2002, he was the Chief Financial Officer of Trans Global Services, Inc., a provider of temporary technical services to the aerospace, aircraft, electronics and telecommunications markets. Mr. Charles has also had his own business in the private practice of accounting. Mr. Charles earned his B.S. in Accounting from the State University of New York at Buffalo.

Code Of Ethics

The Company adopted a Corporate Code of Conduct and Ethics that applies to its employees, senior management and Board of Directors, including the Chief Executive Officer and Chief Financial Officer. The Corporate Code of Conduct and Ethics is available on our web site, <http://www.cvdequipment.com>, by clicking on "About Us" and then clicking on "Corporate Overview."

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Audit Committee

Our Board of Directors has an Audit Committee that consists of Conrad Gunther, Alan H. Temple Jr. and Bruce T. Swan. During the fiscal year ended December 31, 2007, the Audit Committee held four meetings. Pursuant to the Audit Committee Charter, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, and each such independent auditor shall report directly to the Committee. The Audit Committee also reviews with management and the independent auditors, our annual audited financial statements, the scope and results of annual audits and the audit and non-audit fees of the independent registered public accounting firm.

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Furthermore, the Audit Committee reviews the adequacy of our internal control procedures, the structure of our financial organization and the implementation of our financial and accounting policies. Messrs. Gunther, Temple and Swan are "independent" under the requirements of the NASDAQ Stock Market.

The Board of Directors has determined that Conrad Gunther is an "audit committee financial expert" as that term is defined in the rules and regulations of the Securities and Exchange Commission.

### Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the Securities and Exchange Commission require us to disclose late filings of reports of stock ownership and changes in stock ownership by our directors, officers and ten percent stockholders. To our knowledge, based solely on our review of (a) the copies of such reports and amendments thereto furnished to us and (b) written representations that no other reports were required, during our fiscal year ended December 31, 2007, all of the filings for our officers, directors and ten percent stockholders were made on a timely basis.

### Item 10. Executive Compensation.

Summary Compensation TableThe following table sets forth the compensation of our chief executive officer and chief financial officer, our "named executive officers," for the year ended December 31, 2007. The Company has no executive officers other than the "named executive officers."

Name and principal position -----	Option	Salary (\$) -----	Awards (\$)	Total (\$) -----
	Year ----		(1) ---	
Leonard A. Rosenbaum President and Chief Executive Officer	2007	162,742	42,099	204,041
Glen R. Charles Secretary and Chief Financial Officer	2007	117,500	5,063	122,563

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For the year ended December 31, 2007 Mr. Rosenbaum and Mr. Charles were paid base salaries of \$162,742 and \$117,500 respectively. (1) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by CVD in fiscal 2007 for option awards as determined pursuant to FAS 123R. These compensation costs reflect option awards granted during and prior to fiscal 2007. The assumptions used to calculate the value of option awards are set forth under Note 13 of the Notes to Consolidated Financial Statements.

### Outstanding Equity Awards at December 31, 2007

#### OPTION AWARDS

Number of Securities Underlying	Number of Securities Underlying
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Name	Unexercised Options Exercisable (#)	Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date
Leonard A. Rosenbaum	15,000	-	1.40	9/23/2010
	14,000	7,000	4.10	9/13/2012
	8,000	16,000	3.65	12/13/2017
Glen R. Charles	7,500	7,500	2.26	6/16/2012

### 2007 Director Compensation

Name	Option Awards (1)	Total
Alan H. Temple Jr.	\$42,099	\$42,099
Martin J. Teitelbaum	42,099	42,099
Conrad Gunther	42,099	42,099
Bruce T. Swan	42,099	42,099

(1) Amounts shown do not reflect compensation actually received by the named director. Instead, the amounts shown are the compensation costs recognized by CVD in fiscal 2007 for option awards as determined pursuant to FAS 123R. These compensation costs reflect option awards granted during and prior to fiscal 2007. The assumptions used to calculate the value of option awards are set forth under Note 13 of the Notes to Consolidated Financial Statements.

Directors of the Company are not regularly compensated for being on the Board of Directors. However, the Stock Option Committee which is comprised of all of the members of the Board of Directors with the exception of Leonard A. Rosenbaum has the authority to grant stock options to members from time to time. In December, 2007 the Stock Option Committee granted non-qualified stock options to purchase 24,000 shares of the Company's common stock to each member of the board of directors. These options were issued at a grant price equal to the then current market price of \$3.65. These options became exercisable as to 33.3% of the underlying shares on December 12, 2007. The options become exercisable with respect to the remaining 16,000 underlying shares with options to purchase 2,000 shares becoming exercisable every 3 months beginning January 12, 2008. These options expire on December 12, 2017.

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### Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stock Holder Matters.

The following table sets forth, as of March 10, 2008, information regarding the beneficial ownership of our common stock by (a) each person who is known to us to be the owner of more than five percent of our common stock, (b) each of our directors, (c) each of the named executive officers, and (d) all directors and executive officers and executive employees as a group. For purposes of the table, a person or group of persons is deemed to have beneficial ownership of any shares that such person has the right to acquire within 60 days of March 10, 2008.

Name and Address of Beneficial Owner (1)	Amounts and Nature of Beneficial Ownership (2)
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Leonard A. Rosenbaum	1,371,350 (3)
Alan H. Temple Jr.	192,500 (4)
Martin J. Teitelbaum	80,500 (5)
Conrad Gunther	54,500 (6)
Bruce T. Swan	43,500 (7)
Glen R. Charles	7,500 (8)
Michael A. Roth	400,000 (9)
Brian J. Stark	400,000 (9)
Robert E. Kern Jr.	250,000 (10)
David G. Kern	250,000 (10)
All directors and executive officers and executive employees as a group (six (6) persons)	1,749,850

\*Less than 1% of the outstanding common stock or less than 1% of the voting power

(1) The address of Messrs. Rosenbaum, Temple, Teitelbaum, Gunther, Swan and Charles is c/o CVD Equipment Corporation, 1860 Smithtown Avenue, Ronkonkoma, New York, 11779.  
The address of Messrs. Roth and Stark is 3600 South Lake Drive, St. Francis, Wisconsin 53235.  
The address of Messrs. Kern Jr. and Kern is 114 West 47th Street, New York, NY 10036

(2) All of such shares are owned directly with sole voting and investment power, unless otherwise noted below.

(3) Includes options to purchase 29,500 shares of our common stock. Does not include options to purchase 15,500 shares of common stock

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(4) Includes options to purchase 33,000 shares of our common stock. Does not include options to purchase 15,500 shares of common stock.

(5) Includes 2,000 shares held by Mr. Teitelbaum's wife as to which beneficial ownership thereof is disclaimed by Mr. Teitelbaum and options to purchase 44,500 shares of our common stock. Does not include options to purchase 15,500 shares of common stock.

(6) Includes options to purchase 44,500 shares of our common stock. Does not include options to purchase 15,500 shares of common stock.

(7) Includes options to purchase 29,500 shares of our common stock. Does not include options to purchase 15,500 shares of common stock.

(8) Includes options to purchase 7,500 shares of our common stock. Does not include options to purchase 7,500 shares of common stock.

(9) Mr. Roth and Mr. Stark share voting and investment power and beneficially own a total of 400,000 shares of common stock. Mr. Roth and Mr. Stark are the managing members of Stark Offshore Management LLC, which acts as investment manager and has sole power to direct the management of Stark Master Fund Ltd. which directly owns 400,000 shares of common stock. The address of Stark Master Fund Ltd. is 3600 South Lake Drive, St. Francis, Wisconsin 53235.

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- (10) R. Kern and D. Kern as controlling members of Kern Capital Management ("KCM") may be deemed the beneficial owners of the securities of the company owned by KCM in that they might be deemed to share the power to direct the voting or disposition of the securities. R. Kern and D. Kern are the Managing Members of Innovation, which serves as the General Partner of Redpoint, and may be deemed the beneficial owner of securities of the company owned by Redpoint.

See Item 5, Market for Registrant's Common Equity and Related Stockholder Matters, under the heading "Equity Compensation Plan Information" for information regarding our securities authorized for issuance under equity compensation plans.

Item 12. Certain Relationships and Related Transactions, and Director Independence.

### Related Person Transactions

Martin J. Teitelbaum, a director of the Company, is also our general legal counsel. Fees paid to Mr. Teitelbaum for the three years ended December 31, 2007 were approximately \$133,000, \$34,000 and \$35,000.

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### Director Independence

The current members of our Board of Directors are Leonard A. Rosenbaum, Alan H. Temple Jr., Martin J. Teitelbaum, Conrad Gunther and Bruce T. Swan. Messrs. Gunther, Temple, and Swan are "independent" as defined under Rule 4200 of the Nasdaq Stock Market.

### Item 13. Exhibits.

- 3.1 Certificate of Incorporation dated October 12, 1982 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.2 Certificate of Amendment dated April 25, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.3 Certificate of Amendment dated August 12, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.4 Bylaws of CVD Equipment Corporation, incorporated herein by reference to Exhibit 3.2 to our Form S-1 filed on July 3, 2007.
- 10.1 Form of Non-Qualified Stock Option Agreement with certain directors, officers and employees of CVD Equipment Corporation incorporated herein by reference to our Registration Statement on Form S-8 No. 33-30501, filed August 15, 1989.\*
- 10.2 Purchase a 22,000 square foot facility from Kidco Realty incorporated herein by reference to our Form 8-K filed on December 31, 1998.

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- 10.3 CVD Equipment Corporation 2001 Stock Option Plan incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.\*
- 10.4 Form of Non-Qualified Stock Option Agreement incorporated herein by reference to Exhibit 3.1 to our Form 10KSB filed on March 26, 2007.\*
- 10.5 Revolving Credit Agreement between CVD Equipment Corporation and North Fork Bank dated June 1, 2007 incorporated herein by reference to our Form 8-K filed on June 6, 2007.
- 10.6 1989 Key Employee Stock Option Plan incorporated herein by reference to Amendment No. 1 to our Form S-1 filed on August 7, 2007.
- 10.7 CVD Equipment Corporation 2007 Share Incentive Plan incorporated herein by reference to our Schedule 14A filed November 5, 2007.
- 10.8 Contract of sale between CVD Equipment Corporation and HPG Realty Co., LLC for the purchase of a 13,300 square foot facility located at 979 Marconi Avenue, Ronkonkoma, NY 11779.
- 10.9 Assignment, Assumption and Amendment Agreement by and among Town of Islip Industrial Development Agency, North Fork Bank, HPG Realty Co., LLC, Tri-Start Electronics, Inc., and CVD Equipment Corporation dated February 8, 2008.
- 10.10 Lease Agreement between Town of Islip Industrial Development Agency and HPG Realty Co., LLC dated February 1, 2004.

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- 10.11 Payment-In-Lieu-Of-Tax Agreement dated February 1, 2004 between Town of Islip Industrial Development Agency, HPG Realty Co., LLC, and Tri-Start Electronics, Inc.
- 10.12 Mortgage Note between North Fork Bank dated February 8, 2008 in the principal amount of \$1,000,000.
- 10.13 Mortgage Note between North Fork Bank dated February 8, 2008 in the principal amount of \$500,000.
- 21.1 Subsidiaries.
- 23.1 Consent of Moore Stephens, P.C. (S-1)
- 23.2 Consent of Moore Stephens, P.C. (S-8)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.

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\* Management contract or compensatory plan or arrangement required.

Item 14. Principal Accountant Fees and Services.



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The following presents fees for professional audit services rendered by Moore Stephens, P.C. for the audit of our financial statements for the years ended December 31, 2007 and December 31, 2006.

### Audit Fees

The aggregate fees billed by Moore Stephens, P.C., for the annual audit of the Company, unaudited quarterly reviews of financial statements including the Company's reports on Form 10-Q and services normally provided by them in connection with statutory and regulatory filings, including the Company's registration statement related to our 2007 public offering, for fiscal years 2007 and 2006, were \$114,328 and \$76,750, respectively.

### Audit- Related Fees

We did not incur any audit-related fees in 2007 or 2006.

### Tax Fees

Tax fees consisted primarily of tax preparation of the 2006 and 2005 annual tax returns. The aggregate fees billed by Moore Stephens P.C. for such services were \$8,575 in 2007 and \$8,500 in 2006.

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### All Other Fees

Other fees consisted of advisory services provided by Moore Stephens relating to the Company's Share Incentive Plan and Sarbanes Oxley requirements. The aggregate fees billed by Moore Stephens for such services were \$3,835 in 2007 and \$0 in 2006.

### Audit Committee Approval

The engagement of the Company's independent registered public accounting firm is pre-approved by the Company's Audit Committee. The Audit Committee pre-approves all fees billed and all services rendered by the Company's independent registered public accounting firm.

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### SIGNATURES

In accordance with 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.

CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum

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 Name: Leonard A. Rosenbaum  
 Title: President and Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below.

NAME -----	POSITION -----	DATE -----
/s/ Leonard A Rosenbaum ----- Leonard A. Rosenbaum	President, Chief Executive Officer and Director  (Principal Executive Officer)	March 31,
/s/ Alan H. Temple Jr. ----- Alan H. Temple Jr.	Director	March 31,
/s/ Martin J. Teitelbaum ----- Martin J. Teitelbaum	Director and Assistant Secretary	March 31,
/s/ Conrad Gunther ----- Conrad Gunther	Director	March 31,
/s/ Bruce T. Swan ----- Bruce T. Swan	Director	March 31,
/s/ Glen R. Charles ----- Glen R. Charles	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 31,

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EXHIBIT INDEX

- 3.1 Certificate of Incorporation dated October 12, 1982 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.2 Certificate of Amendment dated April 25, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.3 Certificate of Amendment dated August 12, 1985 of Certificate of Corporation incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.
- 3.4 Bylaws of CVD Equipment Corporation, incorporated herein by reference to

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Exhibit 3.2 to our Form S-1 filed on July 3, 2007.

- 10.1 Form of Non-Qualified Stock Option Agreement with certain directors, officers and employees of CVD Equipment Corporation incorporated herein by reference to our Registration Statement on Form S-8 No. 33-30501, filed August 15, 1989.\*
- 10.2 Purchase a 22,000 square foot facility from Kidco Realty incorporated herein by reference to our Form 8-K filed on December 31, 1998.
- 10.3 CVD Equipment Corporation 2001 Stock Option Plan incorporated herein by reference to Exhibit 3.1 to our Form S-1 filed on July 3, 2007.\*
- 10.4 Form of Non-Qualified Stock Option Agreement incorporated herein by reference to Exhibit 3.1 to our Form 10KSB filed on March 26, 2007.\*
- 10.5 Revolving Credit Agreement between CVD Equipment Corporation and North Fork Bank dated June 1, 2007 incorporated herein by reference to our Form 8-K filed on June 6, 2007.
- 10.6 1989 Key Employee Stock Option Plan incorporated herein by reference to Amendment No. 1 to our Form S-1 filed on August 7, 2007.
- 10.7 CVD Equipment Corporation 2007 Share Incentive Plan incorporated herein by reference to our Schedule 14A filed November 5, 2007.
- 10.8 Contract of sale between CVD Equipment Corporation and HPG Realty Co., LLC for the purchase of a 13,300 square foot facility located at 979 Marconi Avenue, Ronkonkoma, NY 11779.
- 10.9 Assignment, Assumption and Amendment Agreement by and among Town of Islip Industrial Development Agency, North Fork Bank, HPG Realty Co., LLC, Tri-Start Electronics, Inc., and CVD Equipment Corporation dated February 8, 2008.
- 10.10 Lease Agreement between Town of Islip Industrial Development Agency and HPG Realty Co., LLC dated February 1, 2004.

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- 10.11 Payment-In-Lieu-Of-Tax Agreement dated February 1, 2004 between Town of Islip Industrial Development Agency, HPG Realty Co., LLC, and Tri-Start Electronics, Inc.
- 10.12 Mortgage Note between North Fork Bank dated February 8, 2008 in the principal amount of \$1,000,000.
- 10.13 Mortgage Note between North Fork Bank dated February 8, 2008 in the principal amount of \$500,000.
- 21.1 Subsidiaries.
- 23.1 Consent of Moore Stephens, P.C. (S-1)
- 23.2 Consent of Moore Stephens, P.C. (S-8)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

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32.1 Section 1350 Certification of Principal Executive Officer.

32.2 Section 1350 Certification of Principal Financial Officer.

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\* Management contract or compensatory plan or arrangement required.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
CVD Equipment Corporation  
Ronkonkoma, New York

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We have audited the accompanying consolidated balance sheets of CVD Equipment Corporation and Subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVD Equipment Corporation and Subsidiary as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31 2007, in conformity with accounting principles generally accepted in the United States of America.

We are not engaged to examine management's assertion about the effectiveness of CVD Equipment Corporations internal controls over financial reporting as of December 31, 2007 and, accordingly, we do not express an opinion thereon.

/s/ Moore Stephens, P.C.

-----  
MOORE STEPHENS, P.C.

Certified Public Accountants.

Cranford, New Jersey  
March 24, 2008

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

	2007
	-----
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 5,110,447
Accounts receivable, net	1,769,265
Investments	251,130
Cost and estimated earnings in excess of billings on uncompleted contracts	1,847,288

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Inventories		3,015,635
Deferred income taxes - current		90,774
Other current assets		379,360
		-----
Total Current Assets		12,463,899
Property, plant and equipment, net		5,055,727
Deferred income taxes - non-current		266,077
Other assets		1,114,637
Intangible assets, net		106,566
		-----
Total Assets	\$	19,006,906
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$	222,193
Short-term notes payable		-
Short-term debt		-
Accounts payable		517,934
Accrued expenses		1,245,819
Accrued professional fees - related party		116,165
Deferred revenue		47,444
Deferred tax liability-current		-
		-----
Total Current Liabilities		2,149,555
Long-term Debt, net of current portion		2,678,421
		-----
Total Liabilities		4,827,976
		-----
Commitments and Contingencies		-
Stockholders' Equity:		
Common stock - \$0.01 par value -10,000,000 shares authorized; issued & outstanding, 4,718,500 shares at December 31, 2007 and 3,250,500 shares at December 31, 2006		47,185
Additional paid-in capital		9,592,728
Retained earnings		4,539,017
		-----
Total Stockholders' Equity		14,178,930
		-----
Total Liabilities and Stockholders' Equity	\$	19,006,906
		=====

The accompanying notes are an integral part of the consolidated financial

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2007 and 2006

	2007
	-----
Revenue	\$ 13,577,772
Costs of revenue	8,906,785
	-----
Gross profit	4,670,987
	-----
Operating expenses	
Selling and shipping	755,324
General and administrative	3,370,914
Related party - professional fees	55,489
	-----
Total operating expenses	4,181,727
Operating income	489,260
	-----
Other income (expense):	
Interest income	51,166
Interest expense	(216,655)
Other income	562,974
	-----
Total other (expense), net	397,485
	-----
Income before income tax	886,745
Income tax (expense)	(109,659)
	-----
Net income	\$ 777,086
	=====
Basic earnings per common share	\$ 0.21
Diluted earnings per common share	\$ 0.20
Weighted average common shares outstanding basic earnings per share	3,667,833
Weighted average common shares outstanding diluted earnings per share	3,825,271

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The accompanying notes are an integral part of the consolidated financial

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2007 and 2006

	Common Shares -----	Stock Amount -----	Additional Paid -In Capital -----	Retain Earn -----
Balance - December 31, 2005	3,127,800	\$ 31,278	\$3,049,362	\$ 3,
Exercise of stock options	122,700	1,227	186,848	
Stock based compensation			169,264	
Net Income				
-----				
Balance - December 31, 2006	3,250,500	\$ 32,505	\$3,405,474	\$ 3,
Exercise of stock options	88,000	880	163,595	
Stock based compensation			254,157	
Issuance of common stock under public offering	1,380,000	13,800	5,769,502	
Net Income				
-----				
Balance - December 31, 2007	4,718,500	\$ 47,185	\$9,592,728	\$ 4,
	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial



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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2007 and 2006

	2007
Cash flows from operating activities:	
Net income	\$ 777,086
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	436,171
Stock - based compensation	254,157
Deferred taxes	(296,517)
Bad debt provision	5,371
Changes in operating assets and liabilities	
Accounts receivable	602,433
Investments	-
Cost in excess of billings on uncompleted contracts	(1,130,625)
Inventories	(311,129)
Other current assets	(351,834)
Other assets	(133,300)
Accounts payable	(122,837)
Accrued expenses	640,213
Deferred revenue	(164,806)
Net cash provided by operating activities	204,383
Cash flows from investing activities:	
Capital expenditures	(575,558)
Deposits	(411,546)
Net cash used in investing activities	(987,104)
Cash flows from financing activities	
Repayments on bank line of credit - net	(210,000)
Proceeds from long-term debt	139,510
Payments of long-term debt	(241,460)
Net proceeds from issuance of common stock	5,783,302
Net proceeds from stock options exercised	164,475
Net cash provided by financing activities	5,635,827
Net increase (decrease) in cash and cash equivalents	4,853,106
Cash and cash equivalents at beginning of year	257,341
Cash and cash equivalents at end of year	\$ 5,110,447

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The accompanying notes are an integral part of the consolidated financial statements.

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## CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2007 and 2006

### Note 1 - Business Description

CVD Equipment Corporation and Subsidiary (the "Company"), a New York corporation, was organized and commenced operations in October 1982. Its principal business activities include the manufacturing of chemical vapor deposition equipment, customized gas control systems, the manufacturing of process equipment suitable for the synthesis of a variety of one-dimensional nanostructures and nanomaterials and a line of furnaces all of which are used primarily to produce semiconductors and other electronic components. The Company engages in business throughout the United States and internationally.

### Note 2 - Summary of Significant Accounting Policies

#### Principles of Consolidation

-----

The consolidated financial statements include the accounts of CVD Equipment Corporation and its wholly owned subsidiary. In December 1998, a subsidiary, Stainless Design Concepts, Ltd., was formed as a New York Corporation. In April 1999, this subsidiary was merged into CVD Equipment Corporation. The Company has one inactive subsidiary, CVD Materials Corporation as of December 31, 2007 and 2006. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Use of Estimates

-----

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

#### Revenue and Income Recognition

-----

The Company recognizes 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 the Company's 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

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based on costs incurred to date compared with total estimated costs. F-7

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### CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2007 and 2006

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.

#### Investments

-----

Investments in unconsolidated companies in which the Company owns less than a 20% interest or otherwise does not exercise a significant influence are carried at cost.

#### Inventories

-----

Inventories are valued at the lower of cost (determined on the first-in, first-out method) or market.

#### Reclassifications

-----

Certain items have been reclassified in the 2006 financial statements to conform to the 2007 presentation. These reclassifications have no effect on the net income previously reported.

#### Income Taxes

-----

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.

#### Long-Lived Assets

-----

Long-lived assets consist primarily of property, plant and equipment. Long-lived assets are reviewed annually for impairment or whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." If the asset is determined to be

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

impaired, the impairment loss is measured on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of their carrying value or net realizable value. The Company had no recorded impairment charges in the statement of operations during each of the years ended December 31, 2007 and 2006.

Computer Software  
-----

The Company follows Statement of Position 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use. This standard requires certain direct development costs associated with internal-use software to be capitalized including external direct costs of material and services and payroll costs for employees devoting time to the software projects. These costs totaled \$6,668 and \$123,115 for the years ended December 31, 2007 and 2006 respectively and are included in Other Assets. All computer software is amortized using the straight-line method over its useful life of three years. Amortization expense related to computer software totaled \$148,049 and \$37,194 for the years ended December 31, 2007 and 2006, respectively.

Intangible Assets  
-----

The cost of intangible assets is being amortized on a straight-line basis over their useful lives ranging from 5 to 20 years. Amortization expense recorded by the Company in 2007 and 2006 totaled \$27,322 and \$18,027 respectively.

Research & Development  
-----

Research and development costs are expensed as incurred.

Bad Debts  
-----

Accounts receivables are presented net of an allowance for doubtful accounts of \$12,588 and \$7,217 as of December 31, 2007 and 2006, respectively. The allowance is based on historical experience and management's evaluation of the collectibility of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in economic and customer conditions.

Product Warranty  
-----

The Company records warranty costs as incurred and does not provide for possible future costs. Management estimates such costs are immaterial based on historical experience. However, it is reasonably possible that this estimate may change in the future.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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### Advertising Costs

-----

The Company expenses advertising and trade show costs which are not expected to benefit future periods. These expenses which are included in selling and shipping expenses were \$144,059 and \$57,508 in 2007 and 2006, respectively.

### Earnings Per Share

-----

Basic net earnings per common share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share reflects the dilutive effect of the assumed exercise of options.

### Cash and Cash Equivalents

-----

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents.

### Concentration of Credit Risk

-----

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. The Company places its cash equivalents with high credit-quality financial institutions and invests its excess cash primarily in money market instruments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain stability and liquidity. The Company sells products and services to various companies across several industries in the ordinary course of business. The Company routinely assesses the financial strength of its customers and maintains allowances for anticipated losses. Generally, the Company does not require collateral or other security to support trade receivables.

### Fair value of Financial Instruments

-----

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The carrying value of long-term debt approximates fair value based on borrowing rates currently available for loans with similar terms and maturities.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

### Stock-Based Compensation

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On January 1, 2006, the Company adopted the provisions of SFAS No. 123-R "Share-Based Payment" using the modified prospective method. SFAS No. 123-R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. Under the modified prospective method of adopting SFAS No. 123-R, the Company recognized compensation cost for all share-based payments granted after January 1, 2006, plus any awards granted to employees prior to January 1, 2006 that remain unvested at that time. Under this method of adoption, no restatement of prior periods is made.

Prior to January 1, 2006 the Company recognized the cost of employee services received in exchange for equity instruments in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued Employees" (APB 25). APB 25 required the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock over the amount the employee must pay for the stock. Compensation expense was measured under APB 25 on the date the shares were granted. Under APB 25, no compensation expense was recognized for stock options.

### Shipping and Handling

-----

It is the Company's policy to include freight in total sales. The amount included in sales was \$31,162 and \$34,214 for the years ended December 31, 2007 and 2006, respectively. Included in selling and shipping is \$116,062 and \$98,138 for shipping and handling costs for 2007 and 2006, respectively.

### Recently Issued Accounting Standards

-----

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115," which is effective for fiscal years beginning after November 15, 2007. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141(R)), which replaces SFAS No. 141, "Business Combinations." SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and

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development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. We are currently evaluating the effects, if any, that SFAS 141(R) may have on our financial statements and believe it could have a significant impact if business combinations are consummated. However, the effect of which is indeterminable as of December 31, 2007.

In December 2007, the FASB issued Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51." This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with earlier adoption prohibited. This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS 141(R). This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We are currently evaluating this new statement and anticipate that the statement will not have a significant impact on the reporting of our results of operations.

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### CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2007 and 2006

In March 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The company is currently evaluating the impact of adopting SFAS. No. 161 on its financial statements.

#### Note 3 - Supplemental Cash Flow Information

During 2007, options to purchase 206,000 common shares were issued to certain employees and members of the board of directors. The exercise price for all

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options granted in 2007 was equal to or greater than the fair market value per share on the date the option was granted and no compensation cost was recognized. New equipment costing \$180,196 was purchased during the year for \$156,481 in cash and traded in equipment with a carrying value of \$23,715.

During 2006, certain assets in property, plant and equipment, with a net book value of \$84,897 were reclassified into inventory. Options to purchase 10,000 common shares were issued to an employee. The option price for all options granted was equal to or greater than the fair market value per share on the date the option was granted and no compensation cost was recognized.

	2007	2006
	----	----
Cash paid during the year for:		
Income taxes, net of refunds	\$ 39,446	\$ 10,047
Interest	217,570	222,861

### Note 4 - Investments

In 2006, the Company sold equipment at the selling price of \$251,130 to a Customer for a purchase price of one hundred four thousand, four hundred eighty two (104,482) shares of a non-public company's common stock, par value \$.001 per share. Between July 19, 2007 and July 31, 2007, the Company has the option to

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### CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2007 and 2006

demand that the Customer make cash payment i.e.: two hundred fifty-one thousand, one hundred thirty 00/100 U.S. dollars (\$251,130) for the equipment, the amount that would have been required had the Customer made cash payment for the equipment on July 19, 2006 in exchange for the return of said stock. The Customer's obligation to make such payment pursuant to the terms of the option is secured by a perfected lien upon the subject equipment and the Company's right to execute upon the aforesaid common stock. In the event the Customer does not make full payment, the Company has also reserved the right to maintain plenary proceedings against the Customer for the purpose of recovering such sums as may be due as well as the right to obtain a deficiency judgment in the event that the collateral in the equipment and stock is insufficient to discharge said obligation.

The Company agreed to extend the option to demand cash payment to the period between December 1, 2007 and March 12, 2008 in exchange for fifty thousand (50,000) shares of the customer's common stock.

On February 19, 2008, the Company exercised its cash payment option demanding the cash payment of \$251,130.

### Note 5 - Uncompleted Contracts

Costs, estimated earnings, and billings on uncompleted contracts are summarized as follows:



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		2007 -----		2006 -----
Costs incurred on uncompleted contracts	\$	1,887,022	\$	1,509,672
Estimated earnings		2,158,386		2,015,836
		-----		-----
		4,045,408		3,525,508
Billings to date		(2,198,120)		(2,808,845)
		-----		-----
	\$	1,847,288	\$	716,663